

ACTION SS-00

RELEASED IN PART
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TO SECSTATE WASHDC PRIORITY 1174
INFO NSC WASHDC

PAGES MISSING

C O N F I D E N T I A L SECTION 01 OF 04 CARACAS 001513

DECAPTIONED

EXDIS

STATE FOR U/S GROSSMAN AND WHA AA/S STRUBLE;
NSC FOR TOM SHANNON

E.O.12958:DECL: XMT
TAGS:PGOV, ECON, PREL, VE
SUBJECT: CHAVEZ SWITCHES HIS GAME PLAN

1. CLASSIFIED BY AMBASSADOR CHARLES S. SHAPIRO,
REASON 6.

CHAVEZ UP, OPPOSITION DOWN

1. (C) VENEZUELAN PRESIDENT HUGO CHAVEZ IS
STRONGER THAN AT ANY PERIOD SINCE DECEMBER 2001
WHEN MASSIVE PROTESTS AGAINST HIS GOVERNMENT
BEGAN. THE POLITICAL OPPOSITION IS DIVIDED,
WEAK, AND FRACTIOUS; AND HIS ECONOMIC OPPOSITION
IN THE PRIVATE SECTOR IS ON THE VERGE OF
BANKRUPTCY AND NEEDS TO TOE THE LINE IN ORDER TO
GET ACCESS TO FOREIGN EXCHANGE. CHAVEZ'S
POPULARITY HAS AT THE VERY LEAST HELD CONSTANT
AND ACCORDING TO SOME POLLS IS GROWING, HE HAS
CONSOLIDATED HIS POLITICAL CONTROL OF THE ARMED
FORCES, AND HIS MAJORITY IN THE ASSEMBLY IS SLIM
BUT HOLDING. IN SHORT THE CORRELATION OF FORCES
HAS SHIFTED AND WITH IT CHAVEZ'S WILLINGNESS TO
NEGOTIATE ANY SORT OF POLITICAL AGREEMENT WITH
THE OPPOSITION.

2. (C) DURING CONVERSATIONS WITH [REDACTED] OVER

THE LAST 10 DAYS, IT IS CLEAR THAT CHAVEZ HAS
SWITCHED THE GAME PLAN:

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: ALAN H FLANIGAN
CLASSIFICATION: CONFIDENTIAL REASON: 25X6
DECLASSIFY AFTER: 15 MAY 2028
DATE/CASE ID: 13 JUN 2007 200504156

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-- THEY NOW REJECT THE PRE-AGREEMENT THAT RANGEL AND CHAVEZ'S CLOSEST ADVISORS HAD CAREFULLY NEGOTIATED AFTER CLEARING EACH STEP WITH CHAVEZ HIMSELF.

-- THE GOV NOW CALLS THE OPPOSITION NEGOTIATORS WITH WHOM THEY HAVE SPENT THE LAST SIX MONTHS NEGOTIATING TO BE UNREPRESENTATIVE OF THE OPPOSITION AND "GOLPISTAS."

-- THE NEGOTIATING TABLE SHOULD NOW BE DISBANDED AND OAS SECGEN GAVIRIA SENT BACK TO DC. IN ITS PLACE THERE SHOULD BE DIALOGUE IN THE NATIONAL ASSEMBLY.

-- THE ECONOMY IS CRASHING (DUE TO CHAVEZ'S DISASTROUS ECONOMIC POLICIES), BUT IF THERE IS A SOCIAL EXPLOSION HE WILL BLAME THE PRIVATE SECTOR AND THE MEDIA WHOM HE HAS ALREADY BEGUN TO ACCUSE OF PLOTTING A "THIRD COUP." THE "FIRST" COUP WAS THE FAILED APRIL 2002 MILITARY COUP. THE "SECOND" COUP WAS THE DECEMBER-FEBRUARY ECONOMIC COUP. THE COMING ONE IS A "SOCIAL COUP."

THE NEW GAME PLAN IS DELAY ANY ELECTION AS LONG AS POSSIBLE, TO SPLIT THE OPPOSITION, AND TO MAKE THE PRIVATE SECTOR SUBMISSIVE.

DELAY THE REFERENDUM

3.(C) WHY DELAY? IF A RECALL REFERENDUM OCCURS AFTER AUGUST 2004, CHAVEZ WOULD NOT BE REPLACED THROUGH NEW ELECTIONS BUT BY HIS VICE PRESIDENT, AND HE WOULD PRESUMABLY CONTINUE TO CONTROL THE GOVERNMENT. GUBERNATORIAL AND MAYORAL ELECTIONS ARE DUE TO OCCUR IN JULY 2004 IN ANY CASE. MVR INSIDERS BELIEVE THAT IF THEY CAN ONLY GET TO JANUARY 2004, THE OPPOSITION PARTIES WILL LOSE INTEREST IN A REFERENDUM AND FOCUS ON THE JULY 2004 ELECTIONS.

HERE'S HOW

3.(C) ONE FOOT DRAGGING. THE FIRST STEP FOR ANY ELECTIONS IS FOR A NEW NATIONAL ELECTORAL COUNCIL TO BE SELECTED. DEPUTIES ON BOTH SIDES OF THE

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aisle are wrangling among themselves and across the aisle. Without any Chavista manipulation, the process can be expected to drag out. Then once the new CNE is installed, [REDACTED]

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[REDACTED] It will take six months for the new CNE to organize itself and a year to scrub the electoral registry before an election can be held. While these decisions will be made by the new CNE itself, [REDACTED] is ominous.

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and a recall in late 2003 or early 2004 becomes inevitable, the Chavista majority in the assembly will amend the constitution (simple majority needed) to call for general elections. The game then goes back to the CNE to organize first a referendum to approve the amendment and then to organize general elections for every office from city council to president.

SPLIT THE OPPOSITION

5.(C) This is Chavez's easiest task. Centrifugal forces are pulling apart the various parts of the opposition who don't share much beyond their opposition to Chavez. There is in fact not one opposition, but many oppositions - a host of small parties whose leaders and executive committees jealously guard party symbols, colors and quotas of power. Some are fighting to maximize the number of seats each gets on the CNE, leaders are positioning themselves to run against Chavez, thereby putting the cart before the horse, and some want to ensure that they do nothing to harm their parties' chances in the 2004 gubernatorial and mayoral elections. [REDACTED]

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TAME THE PRIVATE SECTOR

6.(C) Chavez's exchange and price control regimes

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ARE ILLOGICAL FROM AN ECONOMIC PERSPECTIVE, BUT MAKE PERFECT SENSE POLITICALLY. ECONOMIC GROWTH PER SE IS NOT HIS GOAL. RATHER HE WANTS TO BANKRUPT THE WORST OFFENDERS (POLAR, ALFONZO RIVAS, AND CISNEROS) OR AT LEAST DRIVE THEM OUT OF THE COUNTRY AND MAKE THE REST OF THE DOMESTIC PRIVATE SECTOR SUBMISSIVE. IF THEY WANT FOREIGN EXCHANGE TO IMPORT PRODUCTS, IF THEY WANT SPECIFIC ITEMS UNDER PRICE CONTROL TO BE MOVED OFF THE LIST OR HAVE THE PRICE INCREASED, IF THEY NEED PHYTOSANITARY CERTIFICATES, THEY HAD BETTER TOE THE LINE. SOME ARE ALREADY JOINING A GOV ALTERNATIVE TO FEDECAMARAS. MEMBERSHIP IN THE NEW EMPREVEN IS A PREREQUISITE FOR BIDDING ON GOVERNMENT CONTRACTS.

7. (C) AS FOR THE INTERNATIONAL PRIVATE SECTOR, CHAVEZ WANTS THEIR INVESTMENTS SO LONG AS THEY STAY OUT OF VENEZUELAN POLITICS. WITH NO SYSTEMS IN PLACE AND NONE ON THE HORIZON, ALL DECISIONS ARE MADE BY CHAVEZ HIMSELF -- AND ARE CAPRICIOUS. THE MODEL APPEARS TO BE THE LONG LINES OF CEOS, MOVIE STARS, AND POLITICIANS SEEKING AUDIENCES WITH FIDEL CASTRO TO PETITION HIM FOR FAVORS. HERE THEY NEED CHAVEZ FOR ACCESS TO FOREIGN EXCHANGE, FOR ENERGY CONCESSIONS, AND FOR CONTRACTS WITH THE GOV.

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WHAT'S AT STAKE?

8. (C) CHAVEZ WAS DEMOCRATICALLY ELECTED AND THUS FAR HAS FOLLOWED HIS OWN CONSTITUTION CAREFULLY ENOUGH THAT NO NATION OR INTERNATIONAL BODY HAS BEEN WILLING THUS FAR TO CENSURE HIM. BUT WHILE VENEZUELA HAS SOME OF THE FORMS OF DEMOCRACY, IT IS NOT A LIBERAL DEMOCRACY BUT RATHER AN ILLIBERAL DEMOCRACY.

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ERMS. THE IOCS ARE NOT HAPPY WITH THE
HYDROCARBONS LAW BUT ARE WILLING TO INVEST MONEY
IN PROJECTS WHERE THEY BELIEVE THEY CAN GET A
FAIR RETURN.

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OUTSIDE THE ENERGY SECTOR, SERIOUS
COMMERCIAL INTERESTS ARE AT RISK AS U.S. EXPORTS
PLUMMET FROM \$5.7 BILLION IN 2001, TO \$4.9
BILLION IN 2002, TO A LEVEL PERHAPS BETWEEN \$3.0
AND \$3.3 BILLION THIS YEAR.

POLICY RECOMMENDATIONS

10.(C) POLITICAL. OUR GOAL REMAINS A NEGOTIATED,
DEMOCRATIC, CONSTITUTIONAL, ELECTORAL SOLUTION.

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-- [REDACTED] FOR THE NAMING OF
THE CNE AS SOON AS POSSIBLE AND SUPPORT GAVIRIA'S
LAST-DITCH EFFORTS TO GET A POLITICAL AGREEMENT
SIGNED.

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-- WE MUST CONSULT CAREFULLY WITH THE GROUP OF
FRIENDS AND OTHER INTERESTED COUNTRIES (PERU,
CANADA, ARGENTINA, AND COLOMBIA). IF NO
AGREEMENT IS SIGNED BY THE TIME THE FRIENDS MEET
ON THE MARGINS OF THE MAY 25 ARGENTINE
INAUGURATION, THEY MUST FINALLY CALL THE GOV TO
TASK FOR NEGOTIATING IN BAD FAITH.

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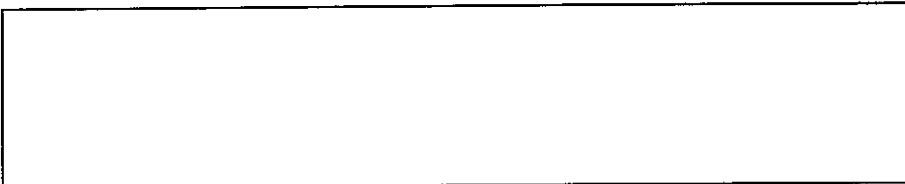
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-- IF THERE IS NO PROGRESS BY THE OASGA, THE FRIENDS FOREIGN MINISTERS SHOULD CALL FOR AN URGENT REVIEW OF THE VENEZUELAN SITUATION IN LIGHT OF RESOLUTION 833.

11.(C) ECONOMIC. WE MUST PRESS HARD SO THAT OUR COMPANIES RECEIVE FOREIGN EXCHANGE FOR PRODUCTS THAT HAVE ALREADY BEEN SHIPPED TO VENEZUELA AND FOR FUTURE SALES AS WELL.

-- THE CURRENT NON-SYSTEM IS PROBABLY ILLEGAL UNDER VENEZUELAN LAW AND IS CERTAINLY CONTRARY TO VENEZUELA'S WTO OBLIGATIONS. WE MUST CALL THEM TO TASK.

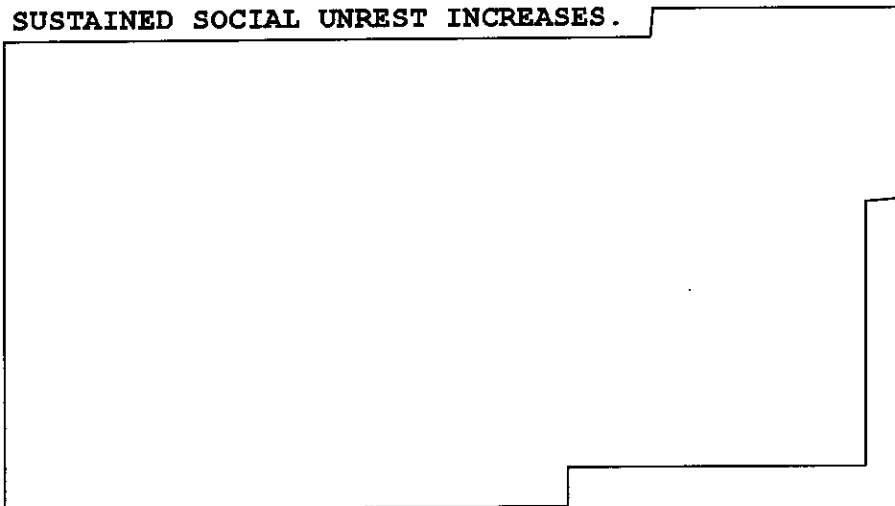


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-- [REDACTED] ORGANIZE A JOINT G-7 DEMARCHE AND POSSIBLY A JOINT NAFTA DEMARCHE.

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12.(C) WE MUST NOT DELUDE OURSELVES ABOUT THE EXTENT OF OUR LEVERAGE HERE. CHAVEZ IS FUNDING HIS BOLIVARIAN REVOLUTION WITH THE PROCEEDS FROM THE VENEZUELAN PETROLEUM INDUSTRY AND OUTSIDE PRESSURE IS UNLIKELY TO PRODUCE GREAT RESULTS. THE BIGGEST PRESSURE IS THE THREAT OF SOCIAL UNREST. AS THE ECONOMY GRINDS DOWN AND THE FOOD DISTRIBUTION CHAIN BREAKS, THE CHANCES OF SOME UNPREDICTED EVENT SERVING AS THE CATALYST FOR SUSTAINED SOCIAL UNREST INCREASES.



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